

## **Educational Note Supplement**

# **Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective September 30, 2022, and Applicable to Valuations with Effective Dates on or after September 30, 2022, and no later than December 30, 2022**

## **Committee on Pension Plan Financial Reporting**

**October 2022**

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*The actuary should be familiar with relevant other guidance. They expand or update the guidance provided in an educational note. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however that a practice that the other guidance describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, other guidance may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update other guidance.*

## MEMORANDUM

**To:** Members in the pension area

**From:** Dean Newell, Chair  
Actuarial Guidance Council

Gus Van Helden, Chair  
Committee on Pension Plan Financial Reporting

**Date:** October 25, 2022

**Subject:** **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective September 30, 2022, and Applicable to Valuations with Effective Dates on or after September 30, 2022, and no later than December 30, 2022**

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The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in the [educational note supplement](#) dated July 26, 2022. This guidance applied for valuations with effective dates on and after June 30, 2022 (but not later than December 30, 2022).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at September 30, 2022, and recommended to the Actuarial Guidance Council (AGC) assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after September 30, 2022 (but no later than December 30, 2022).

In order to provide timely information to actuaries, the AGC has approved the guidance summarized in this memorandum. In accordance with the Institute's *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*, this educational note supplement has been prepared by the PPFRC and received approval for distribution by the AGC on October 24, 2022.

### **Guidance as at September 30, 2022**

The PPFRC has determined that an appropriate discount rate for estimating the cost of purchasing a non-indexed annuity or a fully consumer price index (CPI)-indexed annuity (prior to any adjustment for sub- or super-standard mortality) would be consistent with the [educational note](#) issued on March 11, 2022, with the exception of revisions to applicable durations and/or spreads as outlined in the following table.

Educational note/ supplement	Mortality table <sup>1</sup>	Non-indexed immediate and deferred pensions <i>Duration<sup>2</sup>: Spread relative to unadjusted CANSIM V39062</i>			Fully CPI-indexed pensions <i>Spread relative to unadjusted CANSIM V39057</i>
		Low duration	Medium duration	High duration	All durations
Sep 30, 2022	CPM2014Proj	7.8: + 140 bps	9.9: + 150 bps	11.9: + 150 bps	- 40 bps*
<a href="#">Jun 30, 2022</a>	CPM2014Proj	7.8: + 130 bps	9.9: + 150 bps	11.9: + 150 bps	- 60 bps
<a href="#">Mar 31, 2022</a>	CPM2014Proj	8.2: + 120 bps	10.5: + 140 bps	12.8: + 140 bps	- 40 bps
<a href="#">Dec 31, 2021</a>	CPM2014Proj	8.7: + 100 bps	11.3: + 120 bps	13.9: + 120 bps	- 40 bps
<a href="#">Sep 30, 2021</a>	CPM2014Proj	8.6: + 100 bps	11.1: + 120 bps	13.6: + 130 bps	- 50 bps

\* **Clarification Regarding Indexed Pensions:** Given the current economic conditions, the PPFRC reached out to the insurance companies that provide quotes on the illustrative blocks of business to ensure that their pricing reflects a first pension increase for cost-of-living adjustments 12 months from the quotation date (i.e., pricing is not affected by actual inflation experience prior to the quotation date). Actuaries would consider whether any adjustment to the guidance provided is warranted based on the specific circumstances of a particular pension plan, including the timing of cost-of-living adjustments and actual inflation experience.

### Large Plans

The PPFRC believes that the liability thresholds where a plan may have difficulty in effecting a single annuity purchase to settle its liabilities described in the educational note supplement issued on July 26, 2022 remain appropriate:

	Non-indexed annuities	Indexed annuities
June 30, 2022 onward	\$1,250 million	\$300 million
June 30, 2021 to June 29, 2022	\$1,000 million	\$300 million
December 31, 2018 to June 29, 2021	\$750 million	\$250 million
September 2013 to December 30, 2018	\$500 million	\$200 million

<sup>1</sup> "CPM2014Proj" refers to the 2014 Canadian Pensioners' Mortality Table (CPM2014) combined with mortality improvement scale CPM Improvement Scale B (CPM-B) with no adjustments for sub- or super-standard mortality.

<sup>2</sup> Duration is to be determined for the portion of the liabilities assumed to be settled through the purchase of annuities, based on the medium duration discount rate.

**Retroactive application**

If an actuary has already prepared a report (e.g., funding valuation, solvency, or transfer ratio report) with an effective date on or after September 30, 2022, before the publication of this guidance, the actuary would consider paragraphs 1710.36 through 1710.43 of the *Standards of Practice* to determine whether it is necessary to withdraw or amend the report.

**Additional details on this guidance will be published in the form of an explanatory report, in accordance with the *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*.**

DN, GVH